

March 16, 2022

Gamuda (GAM MK)

Rejuvenated!

Revving for more; maintain BUY

Gamuda's recent MYR6.5b win in Australia reaffirms its capability, as it continues to target an even larger E&C orderbook size - MYR20b by mid-2023. Higher pre-sales can also be expected of its property projects as it embeds sustainability into both design and concept. A highway trust for its four tolled urban highways, if materialise, will unlock value. We raise earnings forecasts to incorporate its recent E&C wins. Our new RNAV-TP is MYR4.28 (+28sen). We also update for its ESG efforts in page 3.

MYR20b E&C target by mid-2023 (end-FY23)

This is a doubling of its existing MYR10.4b outstanding orderbook, after incorporating MYR7.4b of recent wins in SG and AU. The next MYR10b is expected to come from both domestic and overseas jobs. Target wins in MY, besides the KVMRT 3 underground (UG), include flood mitigation projects, while overseas, it has been pre-qualified for the Coffs Harbour bypass project in AU. We remain optimistic on Gamuda securing the KVMRT 3 UG works based on its strong delivery track record & balance sheet, and cost advantage position with a fully depreciated TBM fleet.

Strong property pre-sales, target upped

1QFY22 pre-sale was MYR838m (+25% YoY), while 2Q was higher (details pending). The strong momentum in 1HFY22 has prompted an upward revision to its earlier MYR3.5b pre-sales target for FY22E (+22% YoY) - to MYR4b. With 'environment and biodiversity conservation' as one of the 4 pillars of the 'Gamuda Green Plan 2025', we believe continuous focus on these efforts will be a main draw (in demand) to its property projects as buyers increasingly seek sustainability in lifestyle and their surroundings.

Revising forecasts; ESG risk score has improved

We raise FY22/FY23/FY24 net profit forecasts by +1%/+2%/+13% after adjusting for two new E&C contracts totalling MYR7.4b in value, and incorporating revisions made on LITRAK's earnings on 24 Feb post its 3QFY22 results release [\[link\]](#). Elsewhere, Gamuda's risk score by Sustainalytics (see page 3) is down in the latter's latest update (24 Jan 2022), reflecting improved ESG risk management.

FYE Jul (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,663	3,517	4,446	5,863	6,118
EBITDA	646	692	831	898	985
Core net profit	525	588	603	685	604
Core EPS (sen)	21.1	23.4	23.6	26.8	23.6
Core EPS growth (%)	(27.1)	11.0	0.8	13.7	(11.9)
Net DPS (sen)	6.0	0.0	12.0	12.0	12.0
Core P/E (x)	16.9	12.0	14.2	12.4	14.1
P/BV (x)	1.0	0.8	0.9	0.9	0.8
Net dividend yield (%)	1.7	0.0	3.6	3.6	3.6
ROAE (%)	4.5	6.6	6.5	7.1	6.0
ROAA (%)	2.9	3.2	3.2	3.6	3.0
EV/EBITDA (x)	19.5	14.4	14.8	14.2	12.4
Net gearing (%) (incl perps)	37.0	27.0	33.9	37.1	30.0
Consensus net profit	-	-	598	672	654
MKE vs. Consensus (%)	-	-	0.8	2.1	(7.7)

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BUY

Share Price	MYR 3.34
12m Price Target	MYR 4.28 (+31%)
Previous Price Target	MYR 4.00

Company Description

Gamuda Bhd engages in engineering and construction, property development and water and expressway concessions.

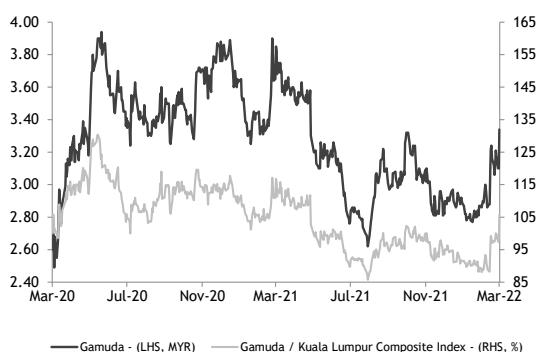
Statistics

52w high/low (MYR)	3.82/2.62
3m avg turnover (USDm)	1.6
Free float (%)	69.4
Issued shares (m)	2,554
Market capitalisation	MYR8.5B
	USD2.0B

Major shareholders:

Permodalan Nasional Bhd.	14.8%
Employees Provident Fund	14.5%
Kumpulan Wang Persaraan	8.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	16	18	(13)
Relative to index (%)	19	13	(10)

Source: FactSet

Abbreviation

E&C = Engineering & Construction
KVMRT = Klang Valley Mass Rapid Transit
TBM = Tunnel Boring Machine
MCO = Movement Control Order
EMCO = Enhanced MCO; FMCO = Full MCO
NRP = National Recovery Plan
PSI = Penang South Island

Stock mentioned in this report

LITRAK (LTK MK, CP: MYR3.75, BUY, TP: MYR4.90)

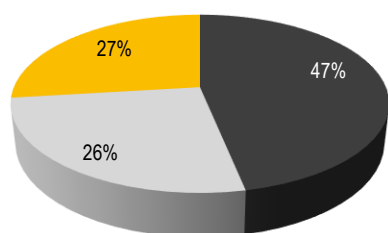
ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Leading engineering & construction (E&C) player that has carved a niche in highly technical tunnelling works.
- Its capabilities have enabled it to clinch key infra projects and gain above-industry average E&C margins.
- Completed infra projects include SMART, Ipoh-Padang Besar EDT, KVMRT 1, LDP, SAE, SPRINT, SSP3 and Sg S'gor Dam.
- Has also accumulated strategic property landbank in MY (Klang Valley mainly), VN (HCMC and Hanoi) and SG worth MYR56b in remaining GDV.
- Four urban and matured tolled highways in the Klang Valley provide a recurring income base.

Pretax profit breakdown in FY21 (before FR511)

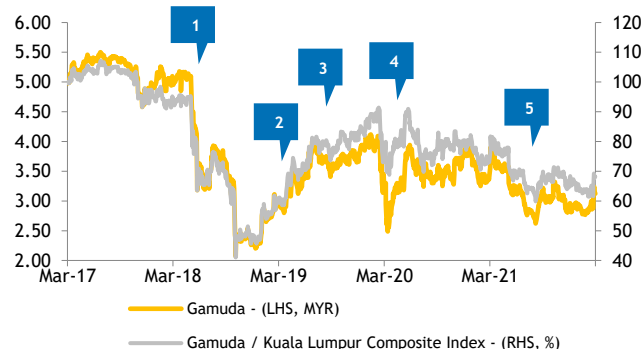
■ Engineering & construction ■ Property development ■ Concessions



Source: Company

Price Drivers

Historical share price trend



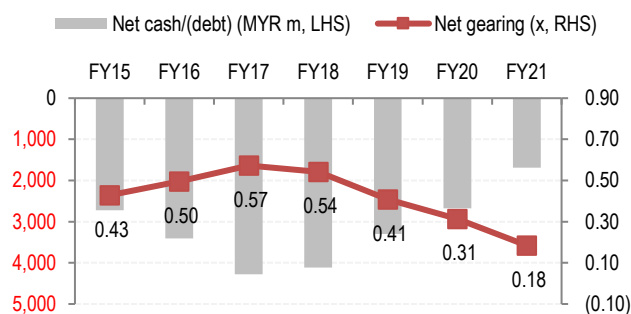
Source: Company, Maybank IBG Research

1. Post GE14 (May 2018) overhang on Malaysia construction stemming from i) review and cancellation of major infra projects and ii) potential abolition of tolled highways.
2. Potential revival of ECRL and sale of its tolled highways.
3. News on revival of Bandar Malaysia project (May 2019), followed by Minister of Finance (Inc.)'s proposed take-over of Gamuda's four tolled highways (Jun 2019).
4. Start of Movement Control Order (MCO) (18 Mar 2020).
5. Announcement (on 11 May 2021) of Gamuda's exclusion from MSCI Global Standard Index.

Financial Metrics

- FY20-21 earnings impacted by Malaysia's MCO and COVID-19 induced Standard Operating Procedures at work sites.
- FY22E earnings to be supported by an outstanding E&C orderbook of MYR4.5b and unbilled property sales of MYR4.6b as of end-Jul 2021.
- Targeting E&C job replenishment from PSI and KVMRT 3; intends to make Australia its 2nd E&C base.
- Targeting MYR4b property pre-sales in FY22 (+39% YoY); have ventured into UK recently as its 4th property base.
- Net gearing stood at 0.18x end-Jul 2021, below its internal cap of 0.7x.

Net debt and gearing



Source: Company

Swing Factors

Upside

- Substantial orderbook replenishment, including from major domestic rail projects such as KVMRT 3.
- Recovery in Malaysia property sales and/or stronger-than-expected overseas property sales.
- PSI Island A reclamation work pace proceeds ahead of expectations.

Downside

- Delay in implementation of key infrastructure projects.
- More tighter Standard Operating Procedures at work sites due to COVID-19, impacting their work pace.
- PSI Island A reclamation work pace falls short of the targeted timeline.

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Risk Rating & Score¹	35.3 (High)
Score Momentum²	-3.8
Last Updated	24 Jan 2022
Controversy Score³ (Updated: 4 Dec 2021)	1 - Society incidents (community relations) & business ethics incidents

Business Model & Industry Issues

- As a leading engineering, infrastructure and property group, Gamuda acknowledges its heavy ESG responsibility including that of the environment. Milestones in 2021 included the launch of 'Gamuda Green Plan 2025' (GGP), the Group's ESG framework, anchored on 4 pillars: (1) sustainable planning & design for construction; (2) community & business; (3) environmental & biodiversity conservation; (4) enhancing sustainability via digitalisation. GGP commits to reduce corporate GHG emission intensity by 30% in 2025, 45% in 2030.
- With the view that ESG and digital will be central to Gamuda's operations moving forward, young leaders in their 30s fill at least half the board seats and executive positions in Gamuda Engineering & Gamuda Land since Jan 2021.
- Gamuda is at the forefront in managing its ESG risks, in our view. Its enhanced resume will lend support in the future tender of major engineering & infrastructure projects in Malaysia and overseas.

Material E issues

- Besides GHG reduction commitment, GGP's other strategic priorities are (i) a 40% reduction in CO₂e emission by 2030, (ii) planting of 1m trees/saplings by 2023 (302k planted as of end-FY21), (iii) developing 2,000 acres of green/waterscapes over 12 urban forest clusters within its property projects by 2023.
- E&C:** GGP commits to a 'circular construction' approach by maximising efficiency of raw materials/resources & reducing wastages (20% reduction of construction waste to landfill, 50% recycling of water at construction sites - both by 2025).
- Property:** Gamuda Parks (GP), set up in 2018 to formalise the Group's efforts in land and biodiversity conservation in its development projects, jointly manages (with the Govt) the *Paya Indah Discovery Wetlands* (1,114 acres), located next to the *Gamuda Cove* development. GP's agendas include (i) a wetland arboretum to regenerate flora and fauna species, and address carbon storage value, and (ii) biodiversity audits in Gamuda's developments in collaboration with local experts.
- Penang South Islands:** To be a low carbon development - smart industrial park will be powered by renewable energy; low carbon mobility has been incorporated into the masterplan.

Material S issues

- Gamuda's staff force (3,615 end-FY21) is diversified in age (<30 yrs old: 26%, 30-50: 61%, >50: 13%) and gender (women made up 35% end-FY21 vs. 31% end-FY20).
- Gamuda Plant Operator School (since 1997) and Tunnelling Training Academy (2011) have trained >45,000 and ~1,000 people respectively. BIM Academy (set up in 2018) aims to train >1,000 employees and subcontractors over 2020-22, in Building Information Modelling digital construction.
- To minimise COVID-19 infection within its workforce, Gamuda set up (i) a RT-PCR testing laboratory in 2020, with capacity to test 20,000 employees fortnightly; and (ii) Centralised Quarantine Quarters at every CLQ. It will soon launch Gamuda Clinics at 2 locations, serving also the community.
- The Group allocates 2% of its profits p.a. to Yayasan Gamuda (YG), set up in 2016. Enabling Academy, under YG, has trained 66 autism disorder adults and assisted them in securing jobs with >30 partner companies since 2017. YG has awarded 471 scholarships since 1996; the *Star Golden Hearts Award* is YG's annual recurring anchor project, now into its 5th year (2022).

Key G metrics and issues

- Gamuda's Board comprises 7 Directors: 4 Independent Non-Executive (incl. Chairman) + 1 Non-Independent Non-Executive + 2 Executive. Independent directors make up 57% of its Board. Its Independent Non-Executive Directors have not served a cumulative term >9 years each as recommended by the Malaysian Code on Corporate Governance.
- There are presently 3 women on Gamuda's Board or 43% representation, above the 30% requirement.
- Gamuda provides detailed disclosure on remuneration of directors and top 5 Group senior management. In FY21, remuneration to executive directors (including to alternate directors) was 1.3% of pretax profit, non-executive directors 0.1%, and top 5 senior management 0.5%.
- Gamuda has been audited by Ernst & Young for 20 years since FY02 (and Arthur Andersen, prior to that).
- Gamuda's Integrity and Governance Unit (IGU) was set up on 13 Dec 2019, in line with the Malaysian Anti-Corruption Commission's Strategic Plan of IGU 2019-21. Two policies were adopted in FY21: (i) Anti-Bribery and Corruption Policy; (ii) Whistleblowing Policy and Procedures (which superseded the 2011 whistleblowing policy). Integrity Pledges for directors and staff were also implemented in FY21.
- Since 2018, the Group has digitalised procurement to raise transparency and efficiency. The Group's Digital Procurement Platform leverages on the SAP Ariba e-platform. >MYR300m has been saved since the digitalisation of procurement and supply chain processes, via supply chain collaboration.
- Transactions with related parties include fees for professional services rendered by a law firm of which a director has an interest. The amount is small, at up to MYR1.3m p.a. over FY16-FY21. There were no other material contracts involving directors and major shareholders during our period of review (FY16-FY21).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Engineering & Construction

- **MYR7.4b recent wins lift outstanding orderbook to MYR10.4b.** The two new contracts, secured just one week apart, are: (i) Defu Station & Tunnel in SG (e.MYR1.45b) on 22 Feb, and (ii) Sydney Metro West - Western Tunnel (SMW-WT) in AU (e.MYR6.5b) on 1 Mar. Defu Station & Tunnel was secured via a 60:40 JV with a local partner (Gamuda's 60% share of the works is thus MYR870m) while SMW-WT was clinched via a consortium with Gamuda as the Head Contractor (the whole contract sum will accrue solely to Gamuda).
- **SMW-WT: Risks & mitigation.** With consortium partner, Laing O'Rourke, providing project management services for an agreed fee, the SMW-WT project risk resides solely with Gamuda as the Head Contractor. Gamuda identifies 3 key new market challenges: local supply chain, safety measures, and authorities' approval. These are mitigated with Laing O'Rourke putting in c.50 personnel to focus on health & safety and local liaison, and Gamuda deploying c.70 personnel (with experience in tunnelling works) from MY. Geologically, SMW-WT is not as challenging as KVMRT 1 & 2 and SMART.
- **SMW-WT: Project funding & margins.** As the contract is 100% government funded and payments are on a progressive basis (with advanced payment for work deployment), project financing from Gamuda's end will only be for working capital purposes. The internal pre-tax margin target of 'high-single digit' for this contract has priced in some 'risk money' / cost escalation.

- **KVMRT 3: Strong contender for UG works portion.** With the Cabinet having recently approved the KVMRT 3 project under a public-private partnership (PPP) model, all eyes are now on the tender for civil works, to be called in May 2022 [\[link\]](#). Project implementation will be undertaken under 5 work packages: 2 elevated (turnkey) + 1 underground (turnkey) + 1 integrated system + 1 project management consultancy.

We remain optimistic on MMC-Gamuda JV (50:50) securing the underground/tunnelling (UG) works portion based on their (i) proven delivery track record, (ii) strong balance sheet (at Gamuda) to fund the upfront construction cost (required under the PPP model), and (iii) cost advantage position with a fully depreciated TBM fleet (12 TBMs).

We estimate a **contract value of at least MYR12b** for the UG works portion, over a 11km alignment, based on similar value per km as the KVMRT 2 and incorporating a small cost inflation. This has yet to incorporate funding cost by the contractor in the initial years under this PPP model, which presumably should be incorporated into the contract value.

- **PSI Island A Phase 1 reclamation (MYR4-4.5b).** A fresh application for EIA approval is on target to be submitted by end this month (end-1QCY22) with approval expected in Jul/Aug 2022. This follows the Department of Environment Appeal Board's decision on 8 Sep 2021 to set aside the earlier Penang South Reclamation EIA approval due to non-compliance with Sec 34A(4)(a) of the Environmental Quality Act 1974 (as the Penang Structure Plan 2030 was not in force at the time of the earlier EIA approval).
- **MYR20b orderbook target by mid-2023 (end-FY23).** With MYR10.4b already in hand, the next MYR10b is expected to come from both domestic and overseas jobs. Target wins in Malaysia, besides the KVMRT 3 UG, include flood mitigation projects with the Cabinet having raised the allocation for such projects to MYR15b for 2023 till 2030, from MYR1b p.a. initially planned under the 12MP (2021-25) [\[link\]](#). Overseas projects include the Coffs Harbour bypass in AU [\[link\]](#), where a Gamuda-consortium has been pre-qualified and tender submission is expected to close sometime now (mid-Mar 2022).

KVMRT 3 project implementation details

- 5 work packages => 2 elevated (turnkey) + 1 underground (turnkey) + 1 integrated rail system + 1 project management consultancy
- 51 km alignment => 40 km elevated + 11 km underground
- MYR50b project value => MYR31b civil works + MYR8b land acquisition + MYR11b contingency
- Timeline => open tender (Apr 2022); award (end-2022)
- Hybrid financing / PPP => Sukuk by MRT Corp (MoF guaranteed) + upfront working cap by contractors ('deferred payment' repayment)
- Operational => phase 1 (2028); fully (2030)

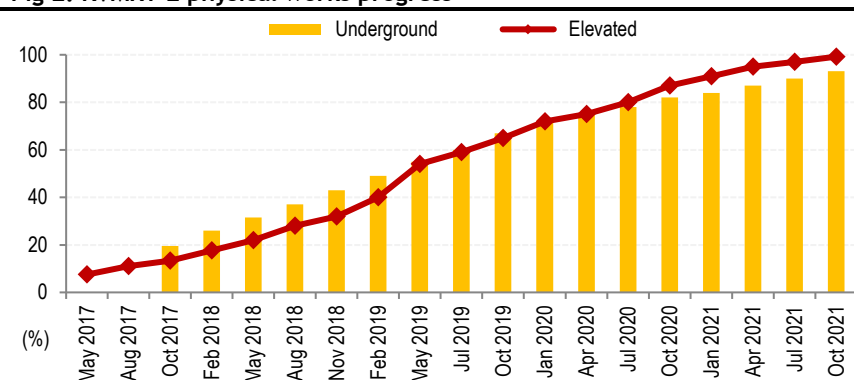
(Source: The Edge Daily, 16 Mar 2022)

Fig 1: E&C orderbook - e.MYR3b outstanding @ end-Jan 2022

Project	Outstanding (MYR m)	Status
KVMRT 2 (Underground and elevated works) (50% share)	1,300 (vs. 1,900 @ end-Oct 2021)	Work progress at 92% (vs. 87% @ end-Oct 2021). Targeted completion: 2022.
Pan Borneo Sarawak - WPC-04 (Pantu Junction to Btg Skrang) (65% share)	200	Work progress at 83% (vs. 79% @ end-Oct 2021). Targeted completion: 2022.
Marine Bridge (Taiwan) (70% share)	100	Work progress at 62% (vs. 58% @ end-Oct 2021). Targeted completion: 2022.
Bus Depot (Singapore) (45% share)	300	Work progress at 16% (vs. 14% @ end-Oct 2021). Targeted completion: 2023.
Seawall project (Taiwan) (70% share)	500	Work progress at 29% (vs. 25% @ end-Oct 2021). Targeted completion: 2025.
Various others	400	Building works from i) Rumah Selangorku project, ii) a private developer, iii) PNB 118 Tower. Also, iv) a trunk road in Sri Aman, Sarawak valued at MYR224m secured in a JV with Naim Engineering (work progress at 5% @ end-Apr 2021). Targeted completion in 2020/2021.
Transmission line (Taiwan) (50% share)	200	Newly secured in 4QFY21. Targeted completion: 2024.
Total	3,000	

Source: Company

Fig 2: KVMRT 2 physical works progress



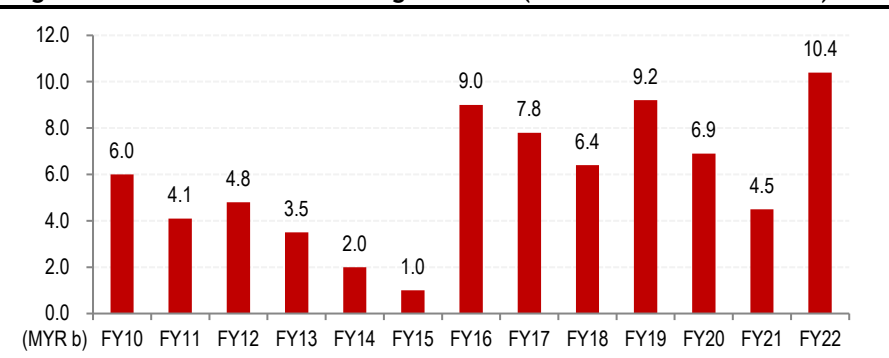
Source: Company results announcement to Bursa

Fig 3: E&C wins in 2022-YTD

Project	Value	Details
SG Defu Station & Tunnel (60% share, with Wai Fong Construction Ptd Ltd)	SGD467m (MYR1.45b)	A design-and-construct contract with Gamuda as the Lead Member. Defu Station (along Tampines Road) is part of the 29km Cross Island Line Phase 1. Commencement: 2Q 2022 Targeted completion: 2030
Sydney Metro West - Western Tunnel	AUD2.16b (MYR6.5b)	A design-and-construct contract with Gamuda as the Head Contractor, and Laing O'Rourke Australia as project delivery partner. 9 kilometres of twin, metro rail tunnel between Westmead and Sydney Olympic Park, utilising two, hard-rock twin shield Tunnel Boring Machines. Commencement: Apr 2022 Targeted completion: 2025
Total	MYR7.37b	

Source: Company announcements to Bursa

Fig 4: E&C orderbook - outstanding as of FYE (as of 1 Mar 2022 for FY22)



Source: Company

Property development

- **Strong pre-sales in FY22-YTD.** 1QFY22 pre-sale was MYR838m (+25% YoY), while 2Q was higher (details pending). The strong momentum in 1HFY22 has prompted an upward revision to its earlier internal MYR3.5b pre-sales target for FY22E (+22% YoY) - to MYR4b (+39% YoY). In 1QFY22, overseas pre-sales (+16% YoY; more than half from OLA in SG) made up 2/3 of the total pre-sales; the balance 1/3 came from its domestic projects (+46% YoY; mainly from Gamuda Gardens, Gamuda Cove, twentyfive.7).
- **Unbilled sales may have crossed the MYR5b mark now, we estimate,** compared to MYR4.9b end-Oct 2021 (and MYR4.6b end-Jul 2021).

- **Sustainability in design and concept - this to be the BIG draw.** From its FY21 Sustainability Report, Gamuda has invested MYR33m in programmes to develop 2,000 acres of green spaces and water scapes across 12 urban forest clusters within its property development projects. Gamuda has also pledged to scientifically audit the health of natural environments of its developments in Malaysia - since 2018, nine biodiversity audits, jointly with the Forest Research Institute of Malaysia, have been conducted.

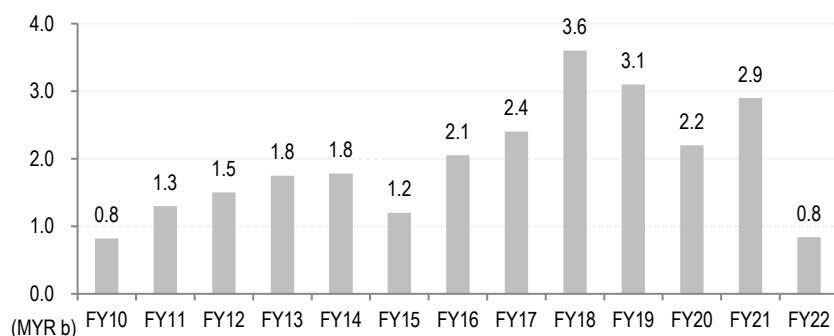
With 'environment and biodiversity conservation' being one of the 4 pillars of the 'Gamuda Green Plan 2025', we believe continuous focus on these efforts will be a main draw (in demand) to its property projects as buyers increasingly seek sustainability in lifestyle and their surroundings.

Fig 5: Property landbank and GDVs

Projects	Remaining land area (acres)	Remaining GDV (MYR m)	FY18A sales (MYR m)	FY19A sales (MYR m)	FY20A sales (MYR m)	FY21A sales (MYR m)	FY22F sales (MYR m)
<u>Malaysia</u>							
K Kemuning, Klang Valley	10	30	0	0	40	10	30
Valencia, Klang Valley	0	0	0	0	0	0	0
Botanic, Klang Valley	30	1,370	30	60	30	50	60
Jade Hills, Klang Valley	80	860	180	130	60	170	100
Horizon Hills, Iskandar M'sia	310	2,380	350	280	150	180	150
Madge, Klang Valley	0	20	0	0	20	0	20
Robertson, Klang Valley	0	70	200	20	10	20	60
Highpark Suites, Klang Valley	0	350	40	10	10	70	100
Bkt Bantayan, Kota Kinabalu	10	680	40	20	0	10	20
Kundang Estates, Klang Valley	20	240	30	30	30	40	60
Gamuda Gardens, Klang Valley	620	10,300	150	200	110	320	300
Twentyfive.7, Klang Valley	150	4,420	150	170	70	90	100
Gamuda Cove, Klang Valley	1,450	23,250	-	100	190	160	300
Sub-total (1)	2,680	43,970	1,170	1,020	720	1,120	1,300
<u>Overseas</u>							
Gamuda City (Hanoi)	270	10,090	600	730	100	240	650
Celadon City (HCMC)	20	750	820	1,190	910	890	750
Chapel Street (Melbourne)	0	120	60	30	70	30	50
GEM Residences (Singapore)	0	0	940	100	20	0	0
Anchorvale Crescent / OLA (Singapore)	4	1,060	0	0	360	590	750
Sub-total (2)	294	12,020	2,420	2,050	1,460	1,750	2,200
Total (1) + (2)	2,974	55,990	3,590	3,070	2,180	2,870	* 3,500
YoY growth (%)			+51%	-14%	-29%	+32%	+22%

* Internal FY22 pre-sales target has been revised to MYR4b recently (details pending); Source: Company

Fig 6: Property pre-sales (1Q for FY22)



Source: Company

Concessions

- **Still pending, the Government's decision on a 'highway trust'.** Responding to queries from the stock exchange on press reports (in May 2021) of a 'highway trust' for its four tolled urban highways, Gamuda had, on 10 May 2021, clarified that its proposal to the government did involve the sale of its highway concessions at **fair market value** to an independent entity funded entirely by the private debt capital market. To this end, a decision from the Government on the sale is still pending.
- **An agenda of the 12MP; time is of essence.** Reviewing the current model for existing and new highway development is an agenda of the 12th Malaysia Plan (12MP; Sep 2021) to "ensure that people will benefit from reasonable toll rates, while ensuring fair returns to investors. The restructuring aims to reduce the risk to the government while enabling concessionaires to undertake operations and maintenance of the highway and generate fair returns from toll collection."

We think that a decision on this matter needs to be made soon as the value proposition for a highway trust is higher when interest rates are still low. A highway trust will help unlock values to shareholders, assuming that the transaction will be based on fair market value.

Fig 7: Highway trust - developments in 2021

The Edge Weekly, on 10 May 2021 [\[link\]](#), reported that Gamuda has proposed for four of its highway concessions to be transferred into a special purpose vehicle / trust company called Amanah Lebuhraya S/B, which is to be overseen by a board of directors.

- Amanah Lebuhraya would raise money from the bond market to buy up its four tolled highways.
- The bonds, with a yield of c.5%, would be issued at varying tenures, and be redeemed from cash flow surplus after paying for highway maintenance works, to be undertaken by Gamuda.
- There will be no more toll rate hikes for the remaining of the concession period, in return for (i) a longer concession period by five (5) years, and (ii) a tax waiver of MYR900m.

StarBiz had, two days earlier on 8 May [\[link\]](#), reported of a similar highway trust mechanism by Gamuda. In addition:

- There will be no government guarantee for the bonds to be issued.
- The acquisition value for the four highways will be lower than the earlier offer by the Government in 2019 (at MYR6.2b enterprise value then), as two years have passed and "cash flows already taken by the stakeholders during that period would be reflected".
- Besides a 5-year extension to the concessions, there would be an option for another 2-3 years of extension to cover any insufficient cash flows for bond repayment (if actual traffic falls short of forecast). But, any surplus in cash flows (if actual traffic is higher than forecast) would contribute towards a shorter concession extension.
- The proposal assumes (i) 1-2% urban traffic growth forecast for the next 15-20 years, and (ii) a bond funding cost of up to 5% (otherwise, the cost of fund cannot be covered by the highways' free cash flows).

Responding to queries from the stock exchange on these press reports, Gamuda, on 10 May 2021, clarified that:

- Its proposal to the government did involve the sale of the highway concessions at **fair market value**, to an independent entity funded entirely by the private debt capital market.
- However, the speculated enterprise value of MYR5.2b was incorrect.
- Its proposal also involved (i) maintaining the current toll rates with no further increases, in return for (ii) a short concession extension to recuse the government from paying any compensation for keeping the current toll rate unchanged for the entire concession period.
- The government would have no stake nor interest in the "buying entity" (ie. the independent entity funded by private debt) and thus, will not spend any of its monies in the acquisition.
- The government would not need to provide any guarantee.

Source: Press reports, Company announcement to Bursa

Fig 8: Pakatan Harapan Government's offer to take-over four tolled highways in Jun 2019

Highways	Purchase consideration (MYR b)	Gamuda's effective stake (%) (a)	Anticipated equity value, calculated by Gamuda (MYR b) (b)	Gamuda's share of anticipated equity value (MYR b) (a)x(b)
KESAS	1.377	70.0%	1.23	0.86
LDP	2.470	43.6%	2.34	1.02
SPRINT	1.984	51.8%	0.87	0.45
SMART	0.369	50.0%	0.06	0.03
Total	6.200		4.50	2.36

* Purchase consideration figures have yet to deduct any form of indebtedness (outstanding dividends, interests, loans, etc)

Source: Company announcement to Bursa

Fig 9: Traffic at tolled highways (compared against pre-MCO levels)

Highways	Mid-Mar to mid-Apr '20 MCO 1.0	Jun 2020 CMCO 1.0	Sep 2020 RMCO	Mid-Oct to Dec 2020 CMCO 2.0	End-Feb 2021 MCO 2.0	End-Apr 2021 CMCO 3.0	End-May 2021 MCO 3.0	End-Jul 2021 FMCO	End-Aug 2021 NRP P1	End-Oct 2021 NRP P4	End-Nov 2021 NRP P4
KESAS	10-20%	90%	100%	71%	85%	95%	65%	58%	74%	85%	95%
LDP	10-20%	90%	100%	88%	90%	97%	69%	60%	77%	92%	100%
SPRINT	10-20%	90%	98%	61%	70%	90%	52%	24%	54%	79%	95%
SMART	10-20%	80%	88%	38%	50%	81%	37%	12%	25%	67%	89%

Source: Company results announcement to Bursa

Financials & valuation

- **Revising earnings forecasts.** We had earlier incorporated MYR2b of E&C wins p.a. into our financial model. We now raise our FY22/FY23/FY24 net profit forecasts for Gamuda by +1%/+2%/+13% after adjusting for two new contracts secured in Feb/Mar 2021 totalling MYR7.4b in value - Defu Station & Tunnel (MYR870m, Gamuda's 60% share) and SMW-WT (MYR6.5b, accruing entirely to Gamuda) and assuming mid- and high single-digit pre-tax margins for the respective contracts. Our earnings revisions for Gamuda also incorporate revisions made on LITRAK's earnings on 24 Feb 2022 (FY22/FY23/FY24E: +9%/+0.1%/-3%) post its 3QFY22 results release [\[link\]](#).
- **Balance sheet strength.** Consolidated net gearing was 0.18x end-Oct 2021 (end-1QFY22). Based on its self-imposed net gearing cap of 0.7x, we estimate that Gamuda has additional debt headroom of MYR4.8b to fund its share of the KVMRT 3 UG works portion (under the PPP model, the turnkey contractor needs to fund the construction costs in the initial years).
- **Revising RNAV estimates and TP.** Our revision also takes into consideration latest audited accounts by its operating units and the holding company. In addition, we have raised our target PER for Gamuda's E&C operations (+2 multiples to 15x), incorporating further orderbook potential.

Fig 10: RNAV

1.0 CONCESSIONS

	<u>DCF / BV</u> <u>(MYR'm)</u>	<u>Shareholding</u> <u>(%)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>	<u>Total (MYR'm)</u>
Expressways				
Lebuhraya Damansara-Puchong	2,241	43.6%	977	
Shah Alam Expressway	1,154	70.0%	808	
Western Traffic Dispersal Scheme (SPRINT)	669	51.8%	347	
KL Flood Mitigation Programme	65	50.0%	32	
				2,164

Total concessions				2,164

2.0 PROPERTY

	<u>Unsold areas</u> <u>(acres)</u>	<u>Bal. GDV</u> <u>(MYR'm)</u>	<u>Shareholding</u> <u>(%)</u>	<u>NPV of future profits</u> <u>(MYR'm)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>
Kota Kemuning (Klang Valley)	10	30	50.0%	5	3
Valencia (Klang Valley)	0	0	98.8%	0	0
Bandar Botanic (Klang Valley)	30	1,370	100.0%	114	114
Jade Hills (Klang Valley)	80	860	100.0%	84	84
Horizon Hills (Iskandar Malaysia)	310	2,380	50.0%	229	115
Madge (Klang Valley)	0	20	100.0%	3	3
Robertson (Klang Valley)	0	70	100.0%	12	12
Highpark Suites (Klang Valley)	0	350	100.0%	39	39
Gamuda Gardens (Klang Valley)	620	10,300	100.0%	433	433
Kundang Estates (Klang Valley)	20	240	100.0%	34	34
Gamuda Cove (Klang Valley)	1,450	23,250	100.0%	486	486
Twentyfive.7 (Klang Valley)	150	4,420	100.0%	267	267
Bukit Bantayan (Sabah)	10	680	100.0%	39	39
Gamuda City (Hanoi)	270	10,090	100.0%	690	690
Celadon City (HCMC)	20	750	100.0%	167	167
Chapel Street (Melbourne)	0	120	100.0%	12	12
GEM Residences (Singapore)	0	0	50.0%	0	0
Anchorvale Crescent / OLA (Singapore)	4	1,060	50.0%	131	65
	-----	-----			-----
	2,974	55,990			2,562
<i>Property NBV @ 31 Jul 2021</i>					5,933
Total Properties RNAV					8,495
<i>(-) 40% discount</i>					<i>(3,398)</i>

Discounted Properties					5,097

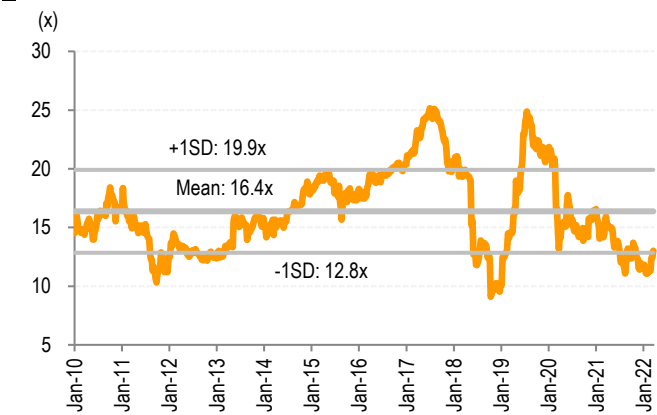
3.0 ENGINEERING & CONSTRUCTION

	<u>Est. net profit</u> <u>(MYR'm)</u>	<u>Target PER (x)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>
FY22E E&C profit	186	15	2,791
Cash & investment securities at holding company @ 31 Jul 2021			870

TOTAL RNAV			10,922
			=====
No. of ordinary shares @ 9 Mar 2022 (post DRP)			2,554
RNAV per share (MYR)			4.28

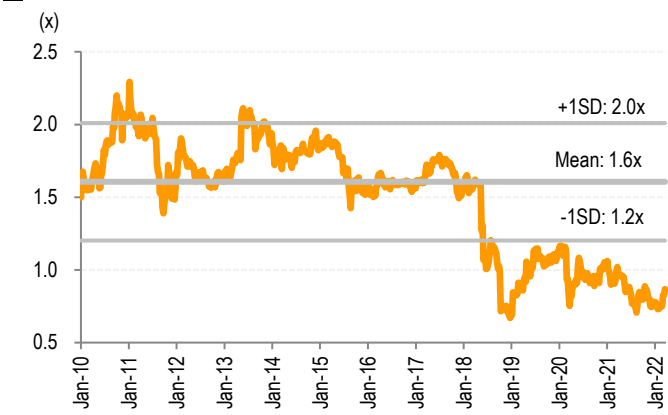
Source: Maybank IBG Research

Fig 11: 12M forward PER



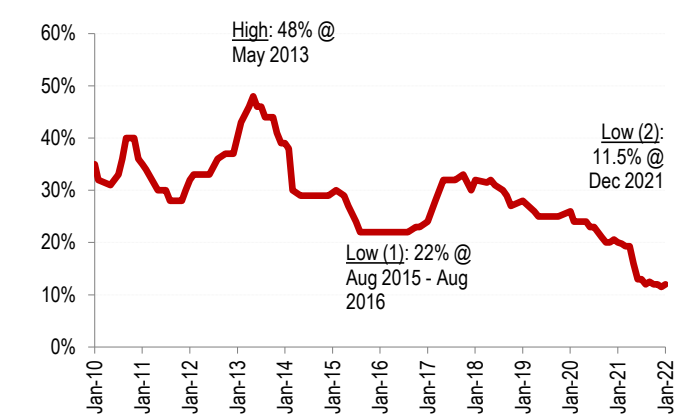
Source: Bloomberg, Maybank IBG Research

Fig 12: 12M forward P/B



Source: Bloomberg, Maybank IBG Research

Fig 13: Foreign shareholding - 12% end-Jan 2022



Source: Company

FYE 31 Jul	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	23.8	14.7	14.2	12.4	14.1
Core P/E (x)	16.9	12.0	14.2	12.4	14.1
P/BV (x)	1.0	0.8	0.9	0.9	0.8
P/NTA (x)	1.0	0.8	0.9	0.9	0.8
Net dividend yield (%)	1.7	0.0	3.6	3.6	3.6
FCF yield (%)	2.0	8.1	nm	nm	12.3
EV/EBITDA (x)	19.5	14.4	14.8	14.2	12.4
EV/EBIT (x)	29.8	21.3	20.7	19.7	16.9

INCOME STATEMENT (MYR m)

Revenue	3,663.0	3,517.2	4,445.7	5,863.0	6,118.0
EBITDA	646.0	692.3	831.2	898.2	985.2
Depreciation	(223.1)	(225.2)	(236.9)	(249.2)	(262.2)
EBIT	422.9	467.1	594.3	648.9	723.0
Net interest income / (exp)	7.1	4.5	(1.2)	(7.2)	(13.5)
Associates & JV	308.4	314.7	217.8	266.3	133.9
Exceptionals	(148.1)	0.0	0.0	0.0	0.0
Pretax profit	590.3	786.3	810.9	908.0	843.4
Income tax	(161.3)	(154.1)	(160.1)	(173.3)	(191.6)
Minorities	(52.5)	(43.9)	(47.9)	(49.3)	(48.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	376.5	588.3	602.8	685.5	603.7
Core net profit	524.6	588.3	602.8	685.5	603.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,147.2	2,656.7	1,765.9	1,191.1	1,721.4
Accounts receivable	2,223.7	1,748.4	2,400.0	3,165.1	3,302.8
Inventory	917.7	808.6	1,034.5	1,421.1	1,469.1
Property, Plant & Equip (net)	997.5	960.7	989.6	1,007.5	1,013.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,010.1	1,825.0	2,042.7	2,309.0	2,443.0
Other assets	10,231.3	10,440.9	10,440.9	10,440.9	10,440.9
Total assets	18,527.5	18,440.2	18,673.6	19,534.8	20,391.0
ST interest bearing debt	2,513.0	1,452.2	1,524.8	1,601.0	1,681.1
Accounts payable	1,760.5	1,745.6	1,800.2	2,328.4	2,920.1
LT interest bearing debt	2,952.2	3,775.6	3,586.8	3,407.5	3,237.1
Other liabilities	2,334.0	1,951.0	1,902.0	1,905.0	1,909.0
Total Liabilities	9,560.0	8,924.5	8,813.6	9,241.6	9,747.7
Shareholders Equity	8,541.1	9,163.6	9,459.9	9,843.8	10,145.8
Minority Interest	426.5	352.1	400.1	449.3	497.5
Total shareholder equity	8,967.6	9,515.7	9,860.0	10,293.1	10,643.3
Total liabilities and equity	18,527.5	18,440.2	18,673.6	19,534.8	20,391.0

CASH FLOW (MYR m)

Pretax profit	590.3	786.3	810.9	908.0	843.4
Depreciation & amortisation	223.1	225.2	236.9	249.2	262.2
Adj net interest (income)/exp	(7.1)	(4.5)	1.2	7.2	13.5
Change in working capital	255.9	519.2	(761.6)	(517.3)	506.2
Cash taxes paid	(161.3)	(154.1)	(160.1)	(173.3)	(191.6)
Other operating cash flow	(308.4)	(314.7)	(217.8)	(266.3)	(133.9)
Cash flow from operations	592.5	1,057.4	(90.5)	207.6	1,299.9
Capex	(411.8)	(488.0)	(250.0)	(250.0)	(250.0)
Free cash flow	180.7	569.4	(340.5)	(42.4)	1,049.9
Dividends paid	(225.8)	0.0	(306.5)	(301.6)	(301.6)
Equity raised / (purchased)	72.9	3.5	0.0	0.0	0.0
Change in Debt	320.0	(304.1)	(116.2)	(103.1)	(90.3)
Other invest/financing cash flow	65.4	(563.8)	(127.6)	(127.6)	(127.6)
Effect of exch rate changes	24.4	9.3	0.0	0.0	0.0
Net cash flow	413.2	(295.0)	(890.8)	(574.7)	530.3

FYE 31 Jul	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.8)	(4.0)	26.4	31.9	4.3
EBITDA growth	(15.6)	7.2	20.1	8.0	9.7
EBIT growth	(26.2)	10.5	27.2	9.2	11.4
Pretax growth	(34.5)	33.2	3.1	12.0	(7.1)
Reported net profit growth	(46.2)	56.3	2.5	13.7	(11.9)
Core net profit growth	(26.6)	12.1	2.5	13.7	(11.9)
Profitability ratios (%)					
EBITDA margin	17.6	19.7	18.7	15.3	16.1
EBIT margin	11.5	13.3	13.4	11.1	11.8
Pretax profit margin	16.1	22.4	18.2	15.5	13.8
Payout ratio	39.6	0.0	50.8	44.7	50.8
DuPont analysis					
Net profit margin (%)	10.3	16.7	13.6	11.7	9.9
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.2	2.0	2.0	2.0	2.0
ROAE (%)	4.5	6.6	6.5	7.1	6.0
ROAA (%)	2.9	3.2	3.2	3.6	3.0
Liquidity & Efficiency					
Cash conversion cycle	80.7	80.1	77.2	107.0	103.1
Days receivable outstanding	204.5	203.3	168.0	170.9	190.3
Days inventory outstanding	108.4	119.5	98.2	93.7	106.8
Days payables outstanding	232.3	242.8	189.0	157.6	194.0
Dividend cover (x)	2.5	nm	2.0	2.2	2.0
Current ratio (x)	1.6	2.2	2.2	2.0	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	37.0	27.0	33.9	37.1	30.0
Net gearing (%) (excl. perps)	37.0	27.0	33.9	37.1	30.0
Net interest cover (x)	na	na	nm	90.0	53.5
Debt/EBITDA (x)	8.5	7.6	6.1	5.6	5.0
Capex/revenue (%)	11.2	13.9	5.6	4.3	4.1
Net debt/ (net cash)	3,317.9	2,571.1	3,345.8	3,817.4	3,196.8

Source: Company; Maybank IBG Research

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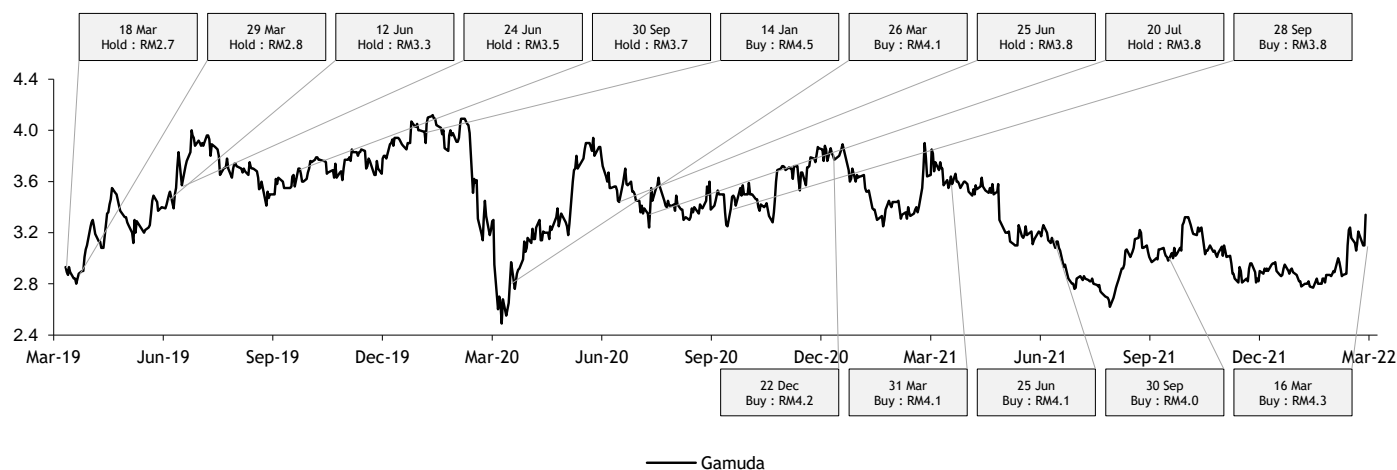
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